



Item 18: IMM Position on 2027 ERCOT Methodologies for Determining Minimum Ancillary Service Requirements

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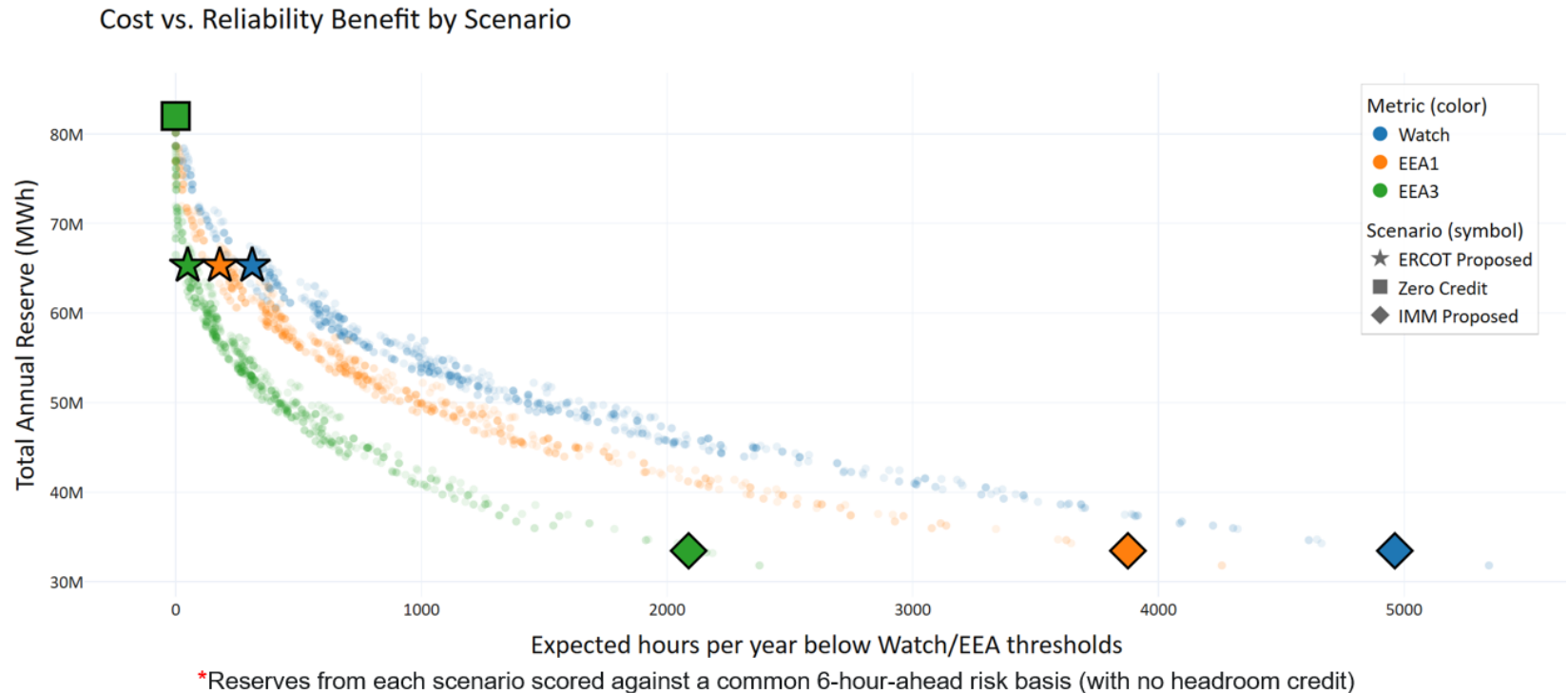
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ERCOT assumptions are too conservative ... will dampen price signal for new investment over time

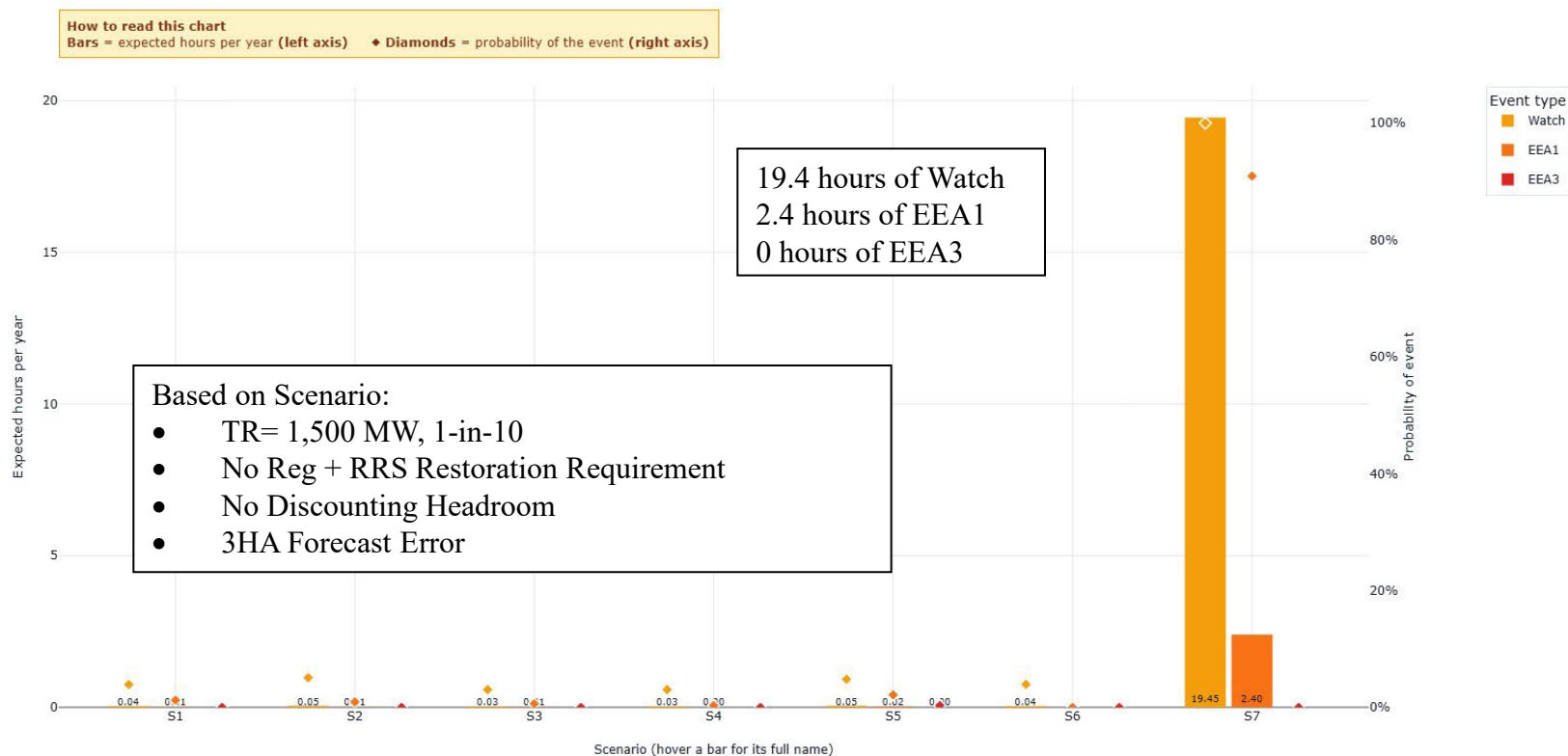
- The 2027 AS Methodology (ASM) should optimize for a 1-in-10 probability of firm load shed while allowing shortage pricing needed to support efficient investment signals.
- Input parameters should accurately characterize the supply and demand risks present in the ERCOT system.
- Relax the Regulation Up and RRS restoration constraint - substantial qualified ESR and NCLR capacity can restore those services directly through RTC.
- Forecast risk should be mapped to shorter timeframe.
- Excessive AS procurement targets suppress real-time energy prices and increase the likelihood and magnitude of RUC commitments.

When benchmarked against the most conservative assumptions, both ERCOT and IMM models result in Watch, EEA1, EEA3



When run individually, the IMM assumptions produce < 20hrs of Watch and zero hours of firm load shed (from ERCOT tool)

Reliability risk observed by optimization by scenario



IMM recommendation for AS Methodology for 2027

We posit that the proposed 2027 AS methodology (1) uplifts excessive procurement costs to consumers, (2) suppresses the price of energy in the over time, and (3) will increase the frequency of RUC instructions.

We recommend the following alternative parameters for the 2027 ASM:

- One hour-ahead time horizon for supply and demand forecast error
- Use the probability of firm load shed instead of the probability of Watch conditions as the convergence criteria
- Remove the Regulation and RRS constraint from the criteria
- Accredited ESR headroom based on sustainable output for 1-hour rather than 4-hours, allowing 100% of available headroom to be able to replenish reserves if necessary

Notes on RA Through Markets

- There are three fundamental designs that are intended to support resource adequacy in wholesale electric markets:
 - Energy Only (TX), Capacity Market, and Load Obligation.
- Energy only and capacity markets are designed to price shortages, signal scarcity, and provide revenue for new generation.
- There has been a pattern of considering programs that price services outside the market (e.g. FFSS, ERS, RDR, Fwd Capacity Procurement).
- These programs suppress price which inhibits the market's ability to signal relative shortage and incent new investment.
- A market needs to experience and price shortages in order to provide the incentives for new investment.
- Focus should be on shortage pricing and new products in-market where needed to provide revenue signals for new investment.